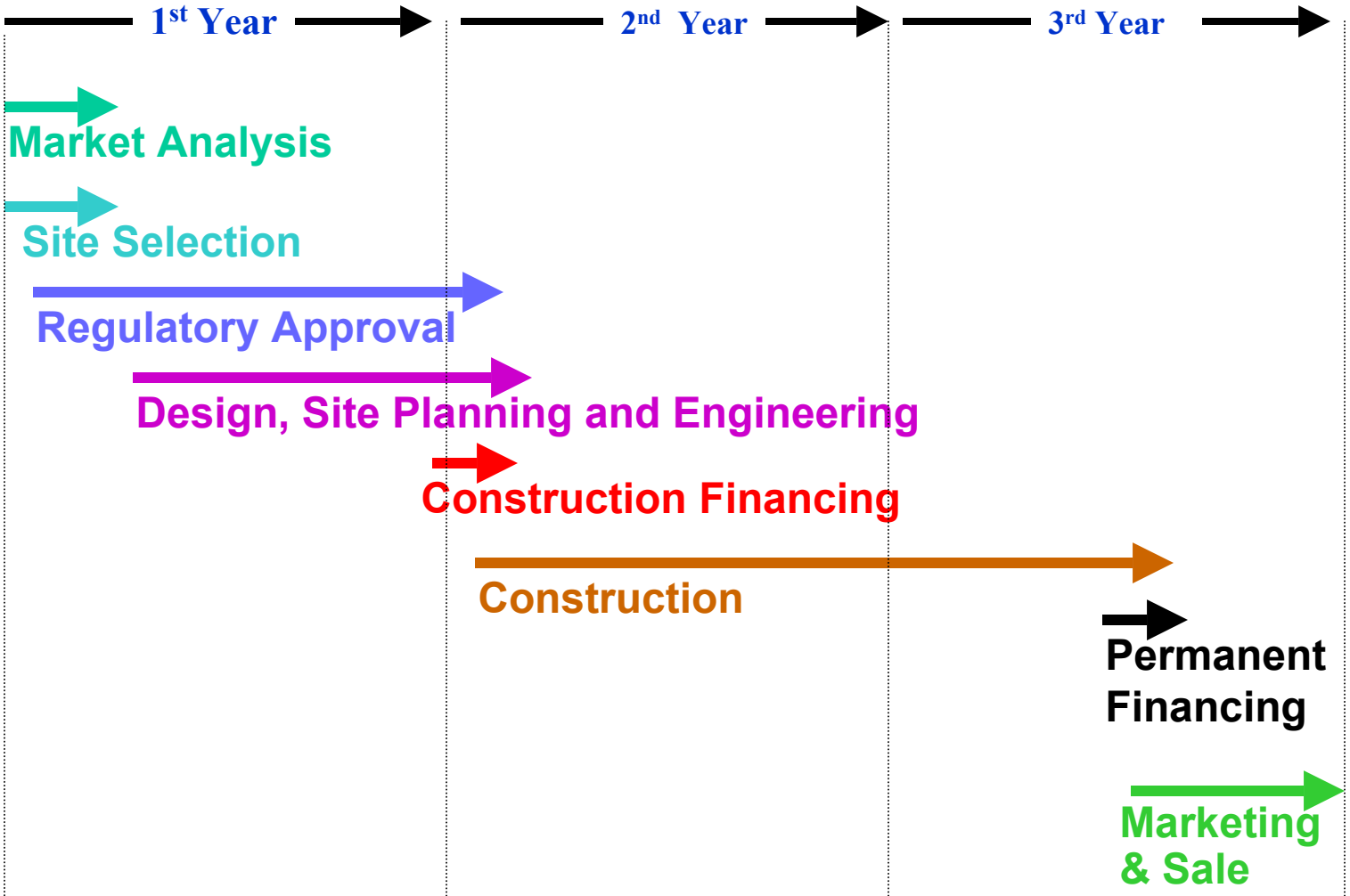
Long Beach General Plan Feasibility Analysis

March 30, 2005

Analyze the Feasibility of Development

Today and in the Future

The Development Process



What the Developer Risks and Wants

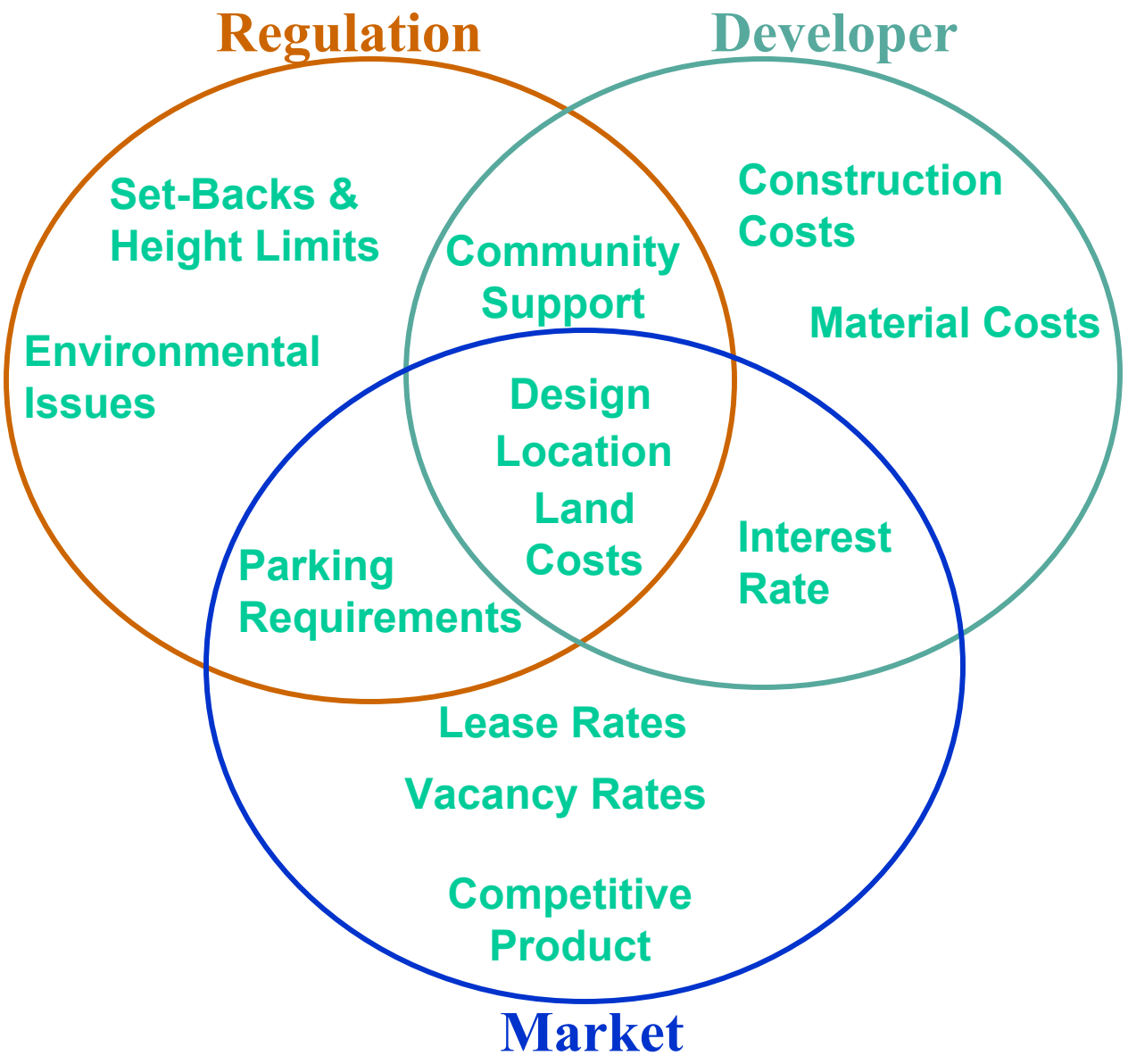
Developers Take Risks

- Developers risk their money in their projects.
- Banks typically finance 60 to 80 percent of a project, with equity investors and the developer covering the remainder.
- The developer pays for up-front costs: site control, feasibility analysis, conceptual design plans, and the entitlement process for building approvals.
- Most developers do not see a return on their investment for at least three years, as the developer takes the last money out of a project, after the bank, contractor, architect and others have been paid.
- Many banks require the developer to secure the construction loan with non-project assets

Required Return

- Internal rate of return of at least 18%.
- Office development is most risky so developers require a 25% IRR for office development.

Factors Influencing Feasibility of a Specific Project



Development Issues

Land is Limited

- Vacant land has become scarce and small parcel sizes make development more difficult.

Urban Reuse Can Be Difficult

- Reuse of sites with structures with economic value is more expensive than building on a vacant site.

Small Projects are Less Feasible

- Small projects are less desirable
- Small lots take longer to attract a developer

Regulatory Process

- Long Beach's entitlement process can take from eight weeks to 8 months depending on the complexity of the project.
- Long regulatory approvals expose the developer to more market risk and tie up the developer's equity, which reduces profits.

Parking

- Parking significantly impacts the feasibility of most projects. Many good projects have been stalled by high parking requirements.
- Parking is expensive to build: $1,500 per space for surface parking, $8,000-$10,000 per space for structure parking, and $16,000-$24,000 per space for underground parking, exclusive of land costs. High land values further increase the cost per space.
- Parking consumes a lot of land in a project. 350 sq ft /space
- Parking spaces rarely pay for themselves.

Development Issues

No Two Projects Are Alike

- Project feasibility is influenced by local real estate market characteristics, zoning requirements, design, construction costs, and a variety of other variables.
- A project that is feasible today may not be possible in the future if interest rates rise or rents fall.

Feasibility is Sensitive to Interest Rates

- When interest rates are high, income properties such as office, industrial, retail and multi-family don't generate enough cash to finance construction.
- Low interest rates precipitate development activity.

Unanticipated Infrastructure Costs

- Many infill projects are located in areas where infrastructure, while in place, may be too obsolete or under-size to adequately serve new development. In these areas, infill feasibility can be impacted by the high cost of replacing or expanding outdated or undersized water or sewer pipes.

The Unexpected (@$#% happens!)

- Events often do not go as planned, delays often occur, and costs change.
- The less certainty in a project the higher the return a developer will seek before proceeding with a project.

Revitalization Takes a Long Time

- Transformation of an area that has issues (crime, poor property maintenance, incompatible uses, undesirable uses, etc.) takes a period of years even with redevelopment assistance.

Project Costs

Hard costs

- Land purchase price
- Site demolition (existing structures and infrastructure)
- Site work (landscaping, curbs, sidewalks, etc.)
- Project construction (buildings & parking)
- Environmental mitigation
- City taxes
- Construction escalation (5%)
- Construction contingency (10%)

Soft costs

- Architectural: architect, structural, mechanical & electrical engineers, the feasibility study, geo tech and soils, and testing & special inspections
- Cost estimator
- Environmental assessment
- Construction interest, fees, title & recording
- Permanent financing, including origination fees, title & recording
- Legal & leasing expenses
- Rent-up and operating reserves
- Permits: planning fees, building permit fees, environmental fees, school fees, park & recreation fees, and transportation fee
- Construction manager and project manager
- Other: fire, liability & course of construction insurance, property tax, accounting and management set-up
- Soft cost contingency (10%)

Residential Market

Projected Multifamily Demand

- Long Beach will add 19,337 new households by 2025.
- 35 percent of new households will both be able to afford market-rate rental apartments and want them. The Long Beach market will support at least 6,768 new multi-family units through 2025, or 340 units/year.
- 31 percent of new households will earn enough to afford a condo but not enough to purchase a single family home. These new residents will create demand for 3,600 units by 2025, or 185 units/year.
- Douglas Park will include 400+ new multi-family rental and condo units

Conditions for Development

- Vacancy of less than 5 percent
- Interest rates of less than 7 percent

Current Multi-family Market

- Long Beach's vacancy rate is below five percent

Size Matters

- Projects of less than 50 units are rarely financially feasible because of higher development, operating and management costs per unit. Developers prefer multi-family projects of 50 to 300 units.

Three Story Residential with Ground Floor Retail

Land Consumption By Project Height		
Square Feet	50 Unit Project	75 Unit Project
2 BR Condos	50	75
Apartment (SF)	60,375	90,563
Parking Spaces	113	169
Parking (SF)	39,375	59,063
2 story (SF)	49,875	74,813
3 story (SF)	33,250	49,875
4 story (SF)	24,938	37,406

Residential Feasibility

Hypothetical Residential Project

- Site: 53,000 sq. ft. site on PCH and Long Beach Boulevard.
- Zoning: Residential R-4-H district. A high-rise, high density, multifamily residential district, with maximum height of 50' or 5 stories. All parking must be within an enclosed garage (1 space/studio, 1.5 spaces/1BR, 2 spaces/2+ BR; one guest parking space for every 4 units)

Feasibility Analysis Findings

- A small 2 story project of 55 units is not feasible for either condos or apartments
- A medium-sized (3.5 story) or larger (5 story) apartment project is feasible for the site, given current market conditions.
- Condo prices must increase to $300/sf for a feasible project in this area. Current prices are around $285/sf.

Apartment Project Feasibility Analysis			
	Multifamily		
	Small Project	Medium Project	Large Project
Total Stories	2	3	5
3 BR Units	5	10	20
2 BR Units	35	50	80
1 BR Units	10	25	30
Parking spaces	103	166	263
Development Cost	10.9 Million	18.1 Million	26.6 Million
Developer Equity	2.7 Million	4.5 Million	6.6 Million
Rate or Return (IRR)	12%	16%	18%
Feasibility	Infeasible	Possible	Feasible
Source: MJC, 2005			

Condo Project Feasibility Analysis			
	Condo		
	Small Project	Medium Project	Large Project
Total Stories	2	3.5	5
2 BR Units	45	85	115
1 BR Units	0	0	0
Parking spaces	101	191	259
Development Cost	12 Million	22 Million	29.8 Million
Developer Equity	3 Million	5.6 Million	7.5 Million
Current IRR	Loss	Loss	7%
Current Feasibility	Infeasible	Infeasible	Infeasible
IRR @ $300/SF	8%	15%	18%
Feasibility @ $300/SF	Infeasible	Possible	Feasible
Source: MJC, 2005			

Commercial Market

Retail

Projected Demand

- Demographic trends should support an additional 500,000 square feet of new retail over the next ten years, or 50,000 square feet per year.
- Current over-supply of retail space in Downtown Long Beach

Current Market

- A diverse cross-section of retail types: downtown retail, recently developed malls, older strip retail, and neighborhood retail centers. Overall, lease rate is $1.81/sq ft.
- Douglas Park will include 200,000 sq. ft. of retail space.

Office

Projected Demand

- Office market development is tied to job growth and interest rates.
- Long Beach will add 800 to 1,400 new office jobs per year through 2015
- Create demand for 160,000 to 280,000 sf of office space per year.

Conditions for Development

- An office market with less than eight percent vacancy is primed for additional office development. Lease rates of $3/sq. ft. will encourage speculative office development in Long Beach.

Current Market

- Office vacancy is 10.4 percent.
- Lease rates range from $1.65 to $2.16/ sq. ft.

Pre-leasing Requirements

- Typically one-third of the office space must be pre-leased prior to financing.

Feasibility of Commercial Development

Two Story Retail & Office

Alternative One

- Location: 35,100 sq. ft. lot on Cherry and Anaheim.
- General Commercial only, no residential uses. Maximum height 2 stories. Parking requirement 1 space /250 sq. ft.

Feasibility Findings

- Small site is difficult to develop because of the height limit and parking requirements.
- Retail only and office only alternatives are not financially feasible. The mixed-use project is marginally feasible.

Commercial Project Feasibility Analysis

	Office		
	Retail Project	Office Project	Mixed Project
Total Stories	1.25	2	2
Office Space (sq.ft.)	-	26,000	13,000
Retail Space (sq. ft.)	16,000	-	13,000
Parking spaces	66	104	104
Development Cost	3.4 Million	7.1 Million	6.3 Million
Developer Equity	1.1 Million	1.7 Million	1.4 Million
Rate or Return (IRR)	14%	11%	16%
Feasibility	Infeasible	Infeasible	Possible

Source: MJC, 2005

One Story Retail

Alternative Two

- Location: 15,000 sq. ft. lot on Long Beach Blvd. and Market Street.
- General Commercial use only, no residential. Maximum height is 2 stories. Parking requirement 1 space /250 sq. ft.

Feasibility Findings

- This site is very difficult to develop because it is very small.
- Parking requirement precludes commercial feasibility.

Commercial Project Feasibility Analysis

	Office		
	Retail Project	Office Project	Mixed Project
Total Stories	1	2	2
Office Space (sq.ft.)	0	10000	5000
Retail Space (sq. ft.)	5000	0	5000
Parking spaces	20	40	40
Development Cost	1.5 Million	2.8 Million	2.5 Million
Developer Equity	$ 375,000	$ 702,000	$ 637,000
Rate or Return (IRR)	0	11%	12%
Feasibility	Infeasible	Infeasible	Infeasible

Source: MJC, 2005

Mixed Use Development

Projected Demand

- Mixed-use developments can create market for constituent uses.
- See analysis for residential, office and retail

Project Size

- The typical mixed-use in-fill project is at least 50,000 to 100,000 square feet
- **Mixed-use Design & Cost**
- Reducing the parking requirement lowers construction and land costs. Shared parking is used by workers and customers during the day and by residents at night.
- Mixed-use design must address layering, separation and combining uses in the project.

Risks

- Mixed-use developments have greater front end risks that create a higher "price of admission." Risks include more complex entitlements process, financing from multiple sources, and the need to penetrate different markets simultaneously.

Hypothetical Project

Site: 53,000 sq. ft. site on PCH
Zoning: Mixed-use, high-rise, high density district, with maximum height 5 stories.
Parking :2 spaces/2+ BR; 1 space/250 sq. ft. of commercial.

Feasibility Analysis Findings

A mixed-use project of 95 condos, and 10,000 sq. ft. each of retail and office will be feasible once sales prices increase for Condos, Retail and Office.

Mixed-Use Project Feasibility Analysis			
	Small Project	Mid-Sized Project	Large Project
Total Stories	2	4	5
Residential 2 BR Units	35	80	95
Office Space (sq.ft.)	5,000	7,000	10,000
Retail Space (sq. ft.)	5,000	7,000	10,000
Parking spaces	110	216	270
Development Cost	12 Million	24 Million	29 Million
Developer Equity	3 Million	5 Million	7.2 Million
Rate or Return (IRR)	Loss	2%	3%
Current Feasibility	Infeasible	Infeasible	Infeasible
IRR @ 300/sf for Condo, $160/sf for Retail and $200/sf for Office	Loss	6%	17%
Future Feasibility	Infeasible	Infeasible	Feasible
Source: MJC, 2005			

Transit Oriented Development

Projected Demand

- TOD is successful where transit is highly accessible, land prices are high, and traffic is congested.
- Reduced parking requirements encourage TOD development. An increase of the FAR can attract development to a site.
- Some tenants will pay a “rent premium” for projects located near rail transit.
- Residential TOD is successful when the primary work destination is a congested downtown
- Retail should be limited to serve project tenants and the immediate area

Project size

- Projects of two to ten acres will attract experienced TOD and mixed-use developers. Successful mixed-use and single-use TOD projects include:
  - Residential density of 30 to 70 units per acre and a total project size of 100 to 500 units.
  - Office development of 80,000 to 650,000 square feet, with an FAR of at least two.
  - Retail and restaurant development of 4,000 to 50,000 square feet depending on the TOD project’s location and market.

Project Value

- TOD typically include higher quality design than non TOD projects due to the entitlement process.
- TODs experience higher resale values, attributed to more intangible ‘quality of life’ benefits, such as increased opportunities for walking, proximity to neighborhood stores, access to transit, and a stronger sense of ‘belonging’ to a neighborhood.

TOD Feasibility

Hypothetical Project

- Site: 53,000 sq. ft. site on Long Beach Blvd.
- Zoning: A Mixed-use, TOD, high-rise, high density district, with maximum height of 5 stories. Planning Commission to reduce parking requirement for non-residential projects if located less than 600 feet from a light rail station.
- Assumes the following TOD parking requirements: 75% of residential parking requirement, 80% of retail parking requirement, 70% of office parking requirement

Feasibility

- At this time the market does not support a mixed-use TOD project.
- The mid-sized and larger TOD projects are feasible if condo prices reach $300/sf

TOD Project Feasibility Analysis			
	Small Project	Mid-Sized Project	Large Project
Total Stories	1.8	4	4.5
2 BR Units	44	80	100
2 BR Condos (sq. ft.)	46,200	84,000	10,500
Office Space (sq.ft.)	5,000	10,000	15,000
Retail Space (sq. ft.)	5,000	10,000	15,000
Parking spaces	104	195	259
Development Cost	13.7 Million	25 Million	31.6 Million
Developer Equity	3.4 Million	6.2 Million	7.9 Million
Rate or Return (IRR)	2%	9%	7%
Current Feasibility	Infeasible	Infeasible	Infeasible
IRR @ $300/SF for Condos	14%	21%	19%
Feasibility	Infeasible	Feasible	Feasible
Source: MJC, 2005			

Key Findings

- Projects of less than 3 stories are generally infeasible.
- Residential projects offer the best financial performance at this time, so developers will tend to favor residential development in mixed-use projects and over other project types.
- There is marginal demand for new retail in some areas of town, so care should be taken when requiring retail development on the ground floor of mixed-use projects.
- Parking drives feasibility and sometimes influences project design.
  - Higher parking requirements for one bedroom and studio units will result in more two-bedroom units.
  - No parking requirements for commercial TOD will result in greater commercial development when the market is strong.


Questions???

Economic Development Element

CRAFTING A VISION FOR OUR ECONOMIC FUTURE

&

A STRATEGY TO MAKE THAT VISION REAL

A key recommendation of City's 2010 Plan

1. Process Roadmap

Analysis of Local Economy → **Strategy Development** → **Strategy Approval & Implementation**

- Market Analysis
- Economic Analysis

5 Neighborhood Meetings
11 Focus Groups
Key Informant Interviews
Economic Development Partners

First Citywide Meeting March 21
- Strengths & Weaknesses
- Vision
- Guiding principles

Second Citywide Meeting April 14
- Finalize Vision & Principles
- Develop Strategies & Priorities

Third Citywide Meeting May '05
- Draft Jobs & Business Strategy

Presentations/Study Sessions May 05
- Economic Development Commission
- Workforce Development Commission
- Community Development Commission
- Redevelopment Agency Board
- Planning Commission

City Council Study Session June '05
- Market & Economic Analysis
- Jobs & Business Strategy
- Economic Development Element

Implementation
- Ongoing Community Involvement
- Evaluation

Project Products

Implementation Road Map

1. **Jobs and Business Strategy**
   - Action focused implementation steps & costs, employment & fiscal impacts, evaluation tools
2. **Economic & Market Analysis**
   - Analyze market support and economic and demographic trends
3. **General Plan Element**
   - Guiding Principles for Economic Development for next 20 years
4. **Community Input Report**
   - A living document that will summarize all community input and inform the Jobs and Business Strategy

Economic Development Element

What is it?

- Guide City's investment decisions
- Guide City's economic development programs
- 20 year general document
- Principles against which City proposed projects and efforts can be judged.

How will the Clusters be involved?

- Please attend City-wide meetings in March, April and May
- May meeting with Clusters to review draft element and provide comments and critique.